

PRESS RELEASE



House Committee on the Budget
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Wasted \$19 Billion Just the Tip of the Iceberg Reinvented government has growing list of “high risk” programs

(Washington, D.C.) – The federal government wastes more than \$19 billion annually in improper payments in a wide variety of programs, according to a House Budget Committee analysis. The study found the problem is growing at an alarming pace, as government auditors listed a record number of agencies “at risk” for waste, fraud and abuse in 1999.

The Budget Committee analysis, to be released later this month, found that seventeen major government programs made \$19.1 billion in improper payments. (See attached documents)

In addition, several other large programs -- Medicaid, Federal Crop Insurance, and the Agency for International Development -- acknowledged they had similar problems but did not release exact figures.

Other findings that point to a growing problem include:

- \$1.8 billion in waste in the Federal Employees Health Benefits plan
- Nearly \$1 billion returned by defense contractors between '94 and '98
- \$448 million in EIC -- 2/3rds of all earned income tax credit claims were paid in error

And the number of programs that pose a high risk for waste are growing, according to the General Accounting office.

Since 1990, the GAO has tracked programs and agencies it considers particularly prone to waste and abuse. Of the 14 programs that GAO originally designated, 10 stubbornly remain on the list and 15 programs have been added to the “high risk” category. In 1999 alone, the Forest Service Financial Management and the FAA Financial Management programs became the newest high risk programs (See attached chart).

The report concludes:

..... many Federal programs share key characteristics..... — complex regulations, an emphasis on swift payments, and a large volume of transactions — and hence also risk making improper payments, GAO said. The problem is worsened because government agencies do not perform comprehensive reviews of their payment methods. As a result, GAO said, “the full extent of the government’s improper payments is not known.” (GAO, Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments, October 1999).

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COMMITTEE ON THE BUDGET
MAJORITY CAUCUS
U.S. House of Representatives
106th Congress — Washington, DC



**[EXCERPT FROM THE HOUSE BUDGET COMMITTEE'S
FORTHCOMING REPORT ON WASTE, FRAUD, ABUSE, AND MISMANAGEMENT]**

INTRODUCTION

Fraud, waste, abuse, and mismanagement undermine the effectiveness of government programs, cost taxpayers billions in lost and wasted dollars, and deprive programs and beneficiaries of resources they need. When such problems are chronic, they also jeopardize the credibility of a government that spends about \$1.8 trillion a year.

Nevertheless, Federal programs continue to waste billions of dollars annually through systemic problems that are longstanding and endemic. These problems persist – and in some cases are growing worse – despite repeated warnings from the government's principal watchdogs, the General Accounting Office [GAO] and the Inspectors General [IG] of the government's agencies.

This report summarizes several years of work by these watchdog organizations, as well as other sources, with respect to the government's largest programs and agencies. It also provides numerous examples of the wasteful spending that results from continuing government mismanagement. Many of the examples are from reports published in 1999; others are from prior years. The combination helps show that the same problems keep occurring year after year – and that the underlying causes remain.

Although each of the programs discussed in this report has problems unique to itself, certain broad failures appear throughout. These include billions of dollars in improper government payments; programs at high risk of waste, abuse, and mismanagement; a lack of financial accountability; and the persistence of fraud. The rest of this introduction reviews these broader issues. This report also contains an addendum concerning duplication and fragmentation in government programs.

IMPROPER GOVERNMENT PAYMENTS

This past October, in a report on the government's financial management, GAO cited \$19.1 billion in improper government payments for fiscal year 1998. But the widely cited figure – applying to 17 major programs that spent about \$870 billion – actually *understates* the size of the problem. It accounts only for the improper payments that could be quantified (see chart on the next page). In fact, GAO said: "Improper payments are much greater than have been

disclosed thus far.” (GAO, *Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments*, October 1999)

To support this view, GAO’s report noted the following:

- < The Agency for International Development, the Medicaid Program, and the Federal Crop Insurance Corporation all acknowledged improper payments, but did not disclose the amounts.
- < In fiscal years 1994 through 1998, Department of Defense contractors returned \$984 million that the government erroneously paid to them.
- < In a review of 290,000 Earned Income Credit [EIC] tax returns with indications of errors or irregularities, the Internal Revenue Service [IRS] found that \$448 million (68 percent of the \$662 million claimed) was invalid for fiscal year 1998.

\$19.1 Billion in Improper Payments

Medicare	\$12.6 Billion
Supplemental Security Income	\$1.6 Billion
The Food Stamp Program	\$1.4 Billion
Old Age and Survivors Insurance	\$1.2 Billion
Disability Insurance	\$941 Million
Housing Subsidies	\$857 Million
Veterans Benefits, Unemployment Insurance, and Others	\$514 Million

Source: GAO, *Financial Management: Increased Attention Needed to Prevent Billions in Payments*, October 1999.

In addition, many Federal programs share key characteristics with those listed above – complex regulations, an emphasis on swift payments, and a large volume of transactions – and hence also risk making improper payments, GAO said. The problem is worsened because government agencies do not perform comprehensive reviews of their payment methods. As a result, GAO said, “the full extent of the government’s improper payments is not known.” (GAO, *Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments*, October 1999)

PROGRAMS AND AGENCIES REMAIN AT “HIGH RISK”

Since 1990, GAO has identified programs and agencies considered at “high risk” for waste, fraud, abuse, and mismanagement. The problem areas cut across virtually every part of the government, and most remain at high risk year after year (see chart on the next page).

The list is still growing. Although the government apparently resolved most of its Y2K computer conversion problems – which had been deemed high risk in 1997 – a summary of the remaining high-risk designations reveals the following:

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- < Ten of the 14 programs first identified as high risk in 1990 were still at high risk in GAO's most recent assessment.
 - < Fifteen programs have been added to the list since 1993.
 - < A total of 19 programs have been high risk for 4 years or more.
 - < Since 1995, the financial management operations of four major agencies – the Department of Defense, the Forest Service, the Federal Aviation Administration, and the Internal Revenue Service – have been added to the high-risk list.

1999 High-Risk Areas and the Year They Were Designated High Risk

Managing Large Procurement Operations More Efficiently

• DOD Inventory Management	1990
• DOD Weapon Systems Acquisition	1990
• DOD Contract Management	1992
• Department of Energy Contract Management	1990
• Superfund Contract Management	1990
• NASA Contract Management	1990

Reducing Inordinate Program Management Risks

• Medicare	1990
• Supplemental Security Income	1997
• IRS Tax Filing Fraud	1995
• DOD Infrastructure Management	1997
• HUD Programs	1994
• Student Financial Aid Programs	1990
• Farm Loan Programs	1990
• Asset Forfeiture Programs	1990
• The 2000 Census	1997

Ensuring Major Technology Investments Improve Services

• Air Traffic Control Modernization	1995
• Tax Systems Modernization	1995
• National Weather Service Modernization	1995
• DOD Systems Development and Modernization Efforts	1995

Providing Basic Financial Accountability

• DOD Financial Management	1995
• Forest Service Financial Management	1999
• FAA Financial Management	1999
• IRS Financial Management	1995
• IRS Receivables	1990

Resolving Serious Information Security Weaknesses

1997

Addressing Urgent Year 2000 Computing Challenge

1997

Source: GAO/HR-99-1 High-Risk Update, January 1999.